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SUBJECT: AMCHAM SURVEY HIGHLIGHTS INVESTOR CONCERNS

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11. (U) Summary. The third annual American Business Forum Turkey investment survey highlights U.S. investor disillusionment with the pace of reform and concerns regarding macroeconomic stability. A large majority of surveyed investors nonetheless remain confident in Turkey's market potential and plan to stay in the market. The survey highlighted areas where the U.S. business community believes reforms are needed including transparency in government contracting, intellectual property rights protection and the efficiency of the legal system. USG engagement with the Turkish government on reforms designed to improvement investment climate and enhance market access was viewed as crucial. End Summary,

12. (U) The American Business Forum Turkey (ABFT), an affiliate of the American Chamber of Commerce, released its third annual survey on the business and investment climate in Turkey in February. The survey polled 105 respondents, up from 51 in 2007 (baseline) and 72 in 2008. Respondents were evenly split between services (50) and industry (55.) General outcomes track with previous years, but reflect the impact of the ongoing financial crisis as well as a loss of investor confidence in GOT macroeconomic policy implementation, as little progress has been made following the 2007 general election. ABFT Chairman Galip Sukaya noted that U.S. executives remain optimistic about the market potential of Turkey and the quality of the workforce but are disappointed in the pace of reforms.

General Market Perceptions

13. (U) A large majority of surveyed investors have a positive impression of market potential (76%), believe investing in Turkey was a good idea (75%), plan to stay in the market (79%) and would recommend Turkey to potential investors (71%.) These numbers track with previous years. Fewer respondents than previous years expect expansion (54% vs. 64% in 2008) while only 40% of respondents (vs. 62% in 2008) see improved prospects for growth in the coming year. Note: These responses are almost certainly affected by the on-going global recession. End Note.

14. (U) The 2009 survey reported a clear drop in optimism related to the ruling party compared to 2008. In 2008, 67% of respondents were confident the new government would create a more attractive environment for foreign investment. This number dropped to 48% in 2009. The survey reported drops of similar magnitude (approximately 15-20 percentage points) in

responses to questions related to the government's ability to maintain a stable macroeconomic environment, tackle important micro issues and accelerate EU harmonization efforts.

¶5. (U) An overwhelming majority (85%) of investors believed USG efforts to engage the government of Turkey (GOT) to improve the investment climate and enhance market access were important. A majority (55%) of respondents believe tension in the bilateral relationship stemming from disagreements over Iraq, Iran or Israel policy or the passage of an Armenia Resolution by Congress could adversely affect the operating environment for their company.

Specific Investor Concerns

¶6. (U) The survey reported a clear loss of confidence in GOT policy making, with only 31% of respondents expressing confidence in the ability of current officials to ensure macroeconomic stability and 39% confident that Turkey's macroeconomic indicators will be stable in the coming year. ABFT Board member Jeffrey Kemprecos noted that investors were expecting much bolder reforms in 2008 following elections in the summer of 2007.

¶7. (U) Survey results on infrastructure, taxation and the legal system track with previous years. Two thirds of respondents (66%) believed electricity costs were not reasonable compared to other markets. Selective enforcement of laws was also cited as a problem - only 29% of investors surveyed believed environmental laws were applied equally to

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all businesses. Almost three quarters of respondents (74%) claimed that personal income taxes were too high. Only 40% of respondents saw total taxation (including levies, fees and excise taxes) as comparable to other countries in which their company operates.

¶8. (U) The legal system is viewed as inefficient (only 33% believe otherwise) and biased against foreign investors (only 42% believe foreign and domestic investors are treated equitably.) Just 43% of respondents believed they would get a fair hearing in court. Under one third (30%) of respondents believed IPR is well protected. (Note: The GOT is aware of this shortfall, State Minister for EU Affairs Egemen Bagis acknowledged as much to the annual general meeting of the international investors association (YASED) noting that revisions to the Commercial Code currently under discussion would remedy shortfalls in the IPR regime. End Note.) Although corruption exists -- 54% cited it as an issue within the legal system -- the effects of corruption pale in comparison to the challenges posed by inefficiency within the court system and a general bias against foreign investors.

¶9. (U) U.S. investor views of the workforce are generally positive. Recent labor market reforms appear to have positively influenced investor sentiment. However, education, particularly for blue collar workers, remains a source of complaints. Only 40% of respondents believed the high-school level education system adequately serves the business community's needs. Investors would prefer to see a greater focus on practical training rather than theory. Infrastructure is generally viewed favorably with privatized airports and telecom cited as particular bright spots.

¶10. (SBU) Comment. ABFT's annual survey is a useful means of quantifying investor sentiment with regard to both government policies and much needed reforms. Following the summer 2007 general elections that returned the ruling AKP to power, the U.S. investor community (along with Turkey's business community in general) experienced a surge of optimism. AKP had performed well during its first term in office and was the most business friendly party to hold office in decades. However, as ABFT notes in its 2009 Survey press release, many now view 2008 as a "lost year". A combination of

bureaucratic inertia and political mis-steps distracted from the business of economic reform and the U.S. investor community has ratcheted expectations down accordingly. Together with Embassy Ankara we will continue to work with ABFT and other U.S. - Turkish business organizations to press the GOT for positive action on the economic reform agenda.
End Comment.
Wiener